mercantile stores company inc. annual report 197

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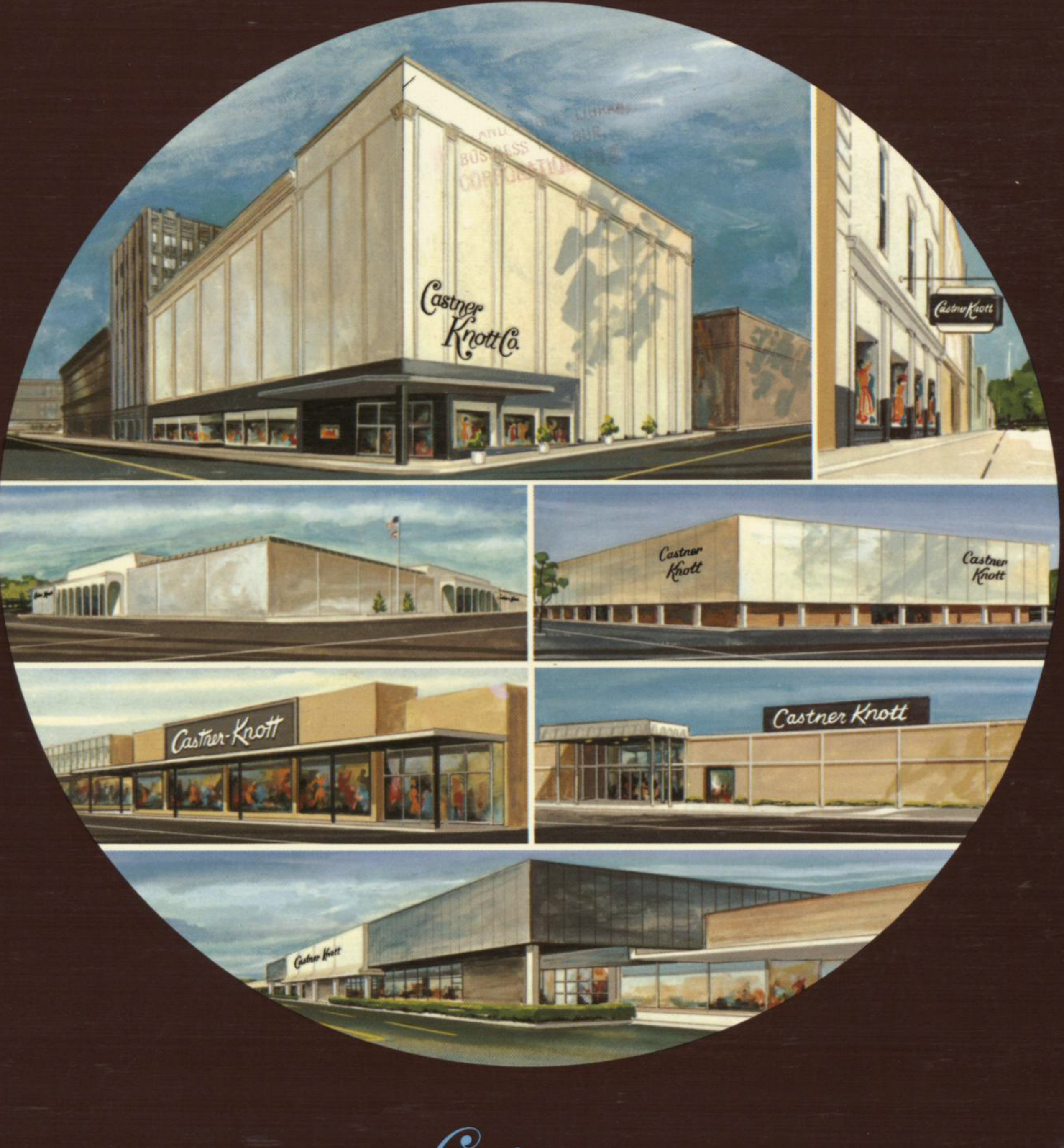
Castner Knott Co.
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Castner Knott

Castner Knott Co. NASHVILLE, TENNESSEE

contents

1 *Directors and Officers*

2 *Financial Highlights in Brief*

3 *Letter to the Stockholders*

5 *Financial and Operating Review*

13 *Financial Statements*

18 *Ten Year Review*

21 *Special Report — Caster Knott Co.*

24 *List of Locations*

annual meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m., on Wednesday, May 17, 1972 at 100 West 10th Street, Wilmington, Delaware. All stockholders are cordially invited to attend.

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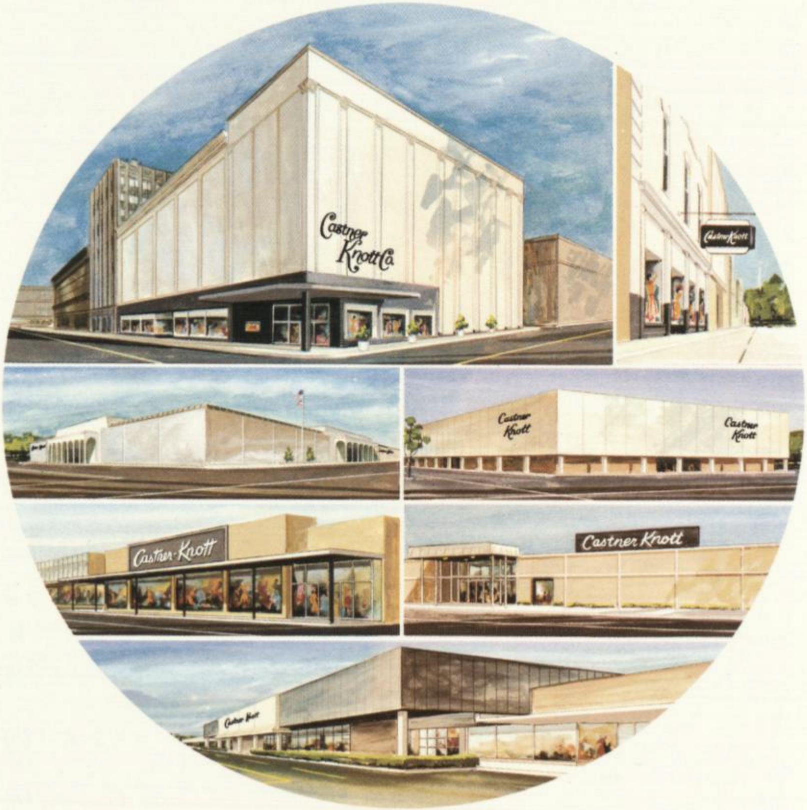
mercantile stores company, inc.

100 west 10th street — wilmington, delaware



Downtown Nashville

Shelbyville

Bowling Green

Rivergate

Donelson

Harding Mall

Green Hills

---

directors

John E. Bierwirth
Chairman and a director of National Distillers and Chemical Corporation.

F. K. Bradley
Consultant
Mercantile Stores Company, Inc.

Morgan A. Casey
Consultant
Mercantile Stores Company, Inc.

William W. Geddes
President and Chief Executive Officer and a director of Wilmington Trust Company, Wilmington, Delaware.

Ashton Hawkins
Secretary
Mercantile Stores Company, Inc.

Harold W. Jockers
Chairman of the Executive Committee
Mercantile Stores Company, Inc.

F. G. Kingsley
Vice-President and a director of Deering Milliken, Inc.

Gerrish H. Milliken
Vice-President and a director of Deering Milliken, Inc.

Minot K. Milliken
Vice-President, Treasurer and a director of Deering Milliken, Inc.

Roger Milliken
President and a director of Deering Milliken, Inc.

George S. Moore
Director of White, Weld & Co. Incorporated and a director of White, Weld & Co. Limited.

R. Nelson Shaw
Chairman of the Board
Mercantile Stores Company, Inc.

Charles E. Stallings
Vice-President
Mercantile Stores Company, Inc.

William G. Stubenvoll
President
Mercantile Stores Company, Inc.

officers

R. Nelson Shaw, ***Chairman of the Board***

William G. Stubenvoll, ***President***

Harold W. Jockers, ***Chairman of the Executive Committee***

F. G. Kingsley, ***Chairman of the Finance Committee***

Frederick W. Bleckwenn, ***Vice-President***

William A. Heineman, ***Vice-President and Treasurer***

Edward J. Sharkey, ***Vice-President***

Charles E. Stallings, ***Vice-President***

Leon F. Winbigler, ***Vice-President***

Walter H. Bosch, ***Controller***

Ashton Hawkins, ***Secretary***

financial highlights in brief

	1971 *(Year Ended Jan. 31, 1972)*	1970 *(Year Ended Jan. 31, 1971)*
Operating Results:		
Net sales	**$393,258,000**	$353,464,000
Sales increase percentage	**11.3%**	11.0%
Income before income taxes	**32,641,000**	30,380,000
Percent to sales	**8.3%**	8.6%
Income before extraordinary item	**17,251,000**	15,680,000*
Percent to sales	**4.4%**	4.4%
Per Common Share:		
Income before extraordinary item	**$5.85**	$5.32*
Dividends	**1.40**	1.40
Cash flow	**8.20**	7.56
Financial Position:		
Working capital	**$84,385,000**	$85,707,000
Ratio of current assets to current liabilities	**3.15**	3.22
Receivables — net	**41,040,000**	41,026,000
Merchandise inventories	**65,422,000**	57,975,000
Property and equipment — net	**76,538,000**	63,052,000
Total assets	**201,891,000**	188,836,000
Long term debt	**35,819,000**	37,268,000
Stockholders' equity	**123,018,000**	109,894,000
Per common share	**41.73**	37.28
Ratio of income before extraordinary item to invested capital	**14.8%**	15.1%
Stores at end of year	**69**	66
Total square feet	**6,256,000**	5,656,000

** In addition to earnings shown above for 1970, an extraordinary gain on the sale of land was realized in the net amount of $1,007,000 or 34¢ per share.*

to our stockholders

April 14, 1972

1971 was a year of continued growth for the Company.

Sales

$393,258,000, an increase of 11.3%.

Net Earnings

$17,251,000 — $5.85 per share, an increase of 10%.

Although we were gratified by the overall results achieved in 1971, it can only be considered a creditable retailing year for us. By way of explanation, not excuse, August sales were consistent with the year to date trend, but the expense connected with the opening of three stores had its effect on profits; October, in addition to being a poor sales month, had to absorb the expense of the Lexington Store opening; January, the last month of the fiscal year, felt the cumulative effects of new store operations as well as having sales well below expectations.

Detailed information on our operations is provided in the Financial and Operating Review which begins on Page 5.

February has started off our new fiscal year with an increase of 17.2% in sales. But again, with expansion for 1972 planned at a slightly higher pace than last year, we must caution that pre-opening and start-up expenses will hamper profits to some degree.

We make no predictions about the new year. We leave it to others to gauge the economic and social trends of the future. We do believe, however, that our past record demonstrates an ability to obtain our share of the retail market.

This does not mean we are not concerned about the future of retailing, for we are. Retailing has changed dramatically in the past ten to fifteen years with the shift from downtown to the suburbs. We were one of the first to recognize that trend and moved with it. Today, more than 70% of our sales are from such areas.

As we look ahead, we believe that some of the shopping centers throughout the country have seen their best days. One of the problems of retailing we must face now is how quickly certain shopping centers will become obsolete. Not many years ago, the strip shopping center with its department store on one end and its supermarket on the other end was the ultimate in shopping convenience. Today, we think in terms of the regional shopping center with its enclosed mall, specialty stores of infinite variety and 3 or 4 department stores. There are many factors contributing to this change but, as retailers, we must recognize emerging trends and capitalize on them.

We believe that we have an obligation to speak out not only on those matters which affect our customers and stockholders but the industry as well. Quite frankly, we have become somewhat concerned by the proliferation of stores in the newer shopping regions of the country. While we have had a vigorous expansion program in the past 3 or 4 years for a company of our size, we are concerned about the overall expansion plans proposed by our industry. Certain areas are already overstored and, in such situations, everyone suffers—the well run, in addition to the obviously poorly run operation. No company can afford to stand still—but the problem of overstoring makes for increasing hazards in expansion for all of us.

But, enough said of our concern—for it is the new challenges and the constant change that make retailing so exciting and we are eager to respond to the new opportunities.

The division we highlight this year, Castner Knott in Nashville, typifies so well our end objective—a steady and profitable growth for our stockholders. Mr. Robert C. Hilton worked tirelessly to build the foundation so necessary for solid accomplishment and Mr. James C. Lovell has capitalized upon it with creativity, imagination and drive.

Elsewhere, we note some of the executive changes that have occurred during the year. We have an obligation to provide a continuity of management with a balance of talent, experience and age. We believe that this policy has been further enhanced by the changes made. However, it would be remiss not to especially mention Mr. Harold W. Jockers, who has contributed so much during the past three decades.

On January 4, 1972, Mr. Jockers relinquished his position as Chief Executive Officer of the Company. Mr. Jockers became a member of the Board in April, 1941 and was elected President in December, 1941. He became Chairman of the Board in December, 1960. No one man is more responsible for the solid record of growth and achievement that the Company has maintained in the past 30 years. He has an extraordinary ability to balance the conflicting interests inherent in a Company that prides itself on the autonomy of its various divisions with leadership, understanding and compassion. We are pleased that he will continue his association as a member of the Board of Directors and as Chairman of its Executive Committee.

No dramatic changes are planned. Rather, we will continue to apply the merchandising techniques that have stood us so well in the past, modifying or adapting them to the ever evolving retail environment.

Our business is people—the customer up front, our employee behind the counter and the supplier furnishing the goods on our counter. As we strive to merit their continued confidence, we take this opportunity to thank all of them.

Respectfully submitted,

R. Nelson Shaw

R. Nelson Shaw, *Chairman of the Board*

William G. Stubenvoll

William G. Stubenvoll, *President*

By Order of the Board of Directors

Sales

Sales for the year ended January 31, 1972 totaled $393,258,000 compared with $353,464,000 for the 1970 fiscal year. This was the fourth consecutive year in which sales showed an increase of at least 11% over the previous year.

Sales for those units opened for a minimum of two full years had an increase of 4.4%.

At year-end, the Company had 69 stores in operation. Sales in 16 central downtown area stores accounted for 29% of sales and 53 stores in suburban shopping centers and small towns were responsible for the remaining 71%. The Company also operates two schools for the training of beauty salon operators.

Earnings

Net income increased for the eleventh consecutive year reaching an all-time high of $17,251,000, or $5.85 per share. A year ago, the Company earned $15,680,000, or $5.32 per share, from normal operations.

Net earnings were helped by the elimination of the Federal income tax surcharge by 11¢. In the prior year, the lower surcharge had helped earnings by 33¢.

We were not able to take full advantage of the reinstatement of the investment tax credit because the dates in the statute precluded the credit for certain stores. Our investment tax credit this year amounted to $201,000, or 7¢ per share, which was somewhat lower than the credit of $395,000, or 13¢ per share, realized last year.

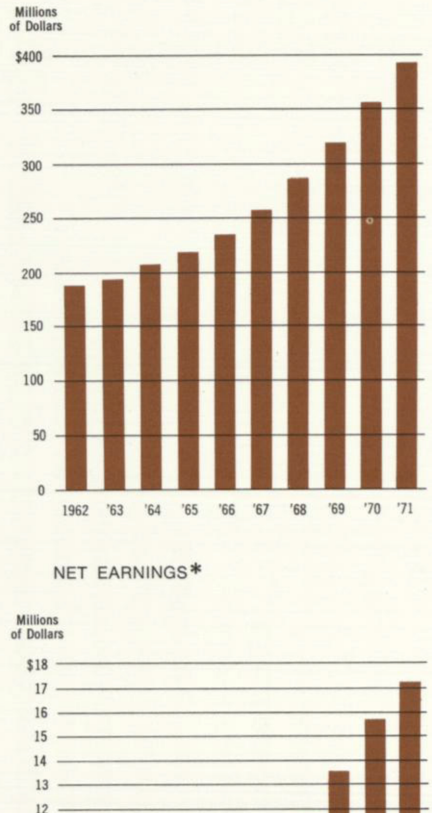
Pre-tax earnings as a percent of sales dropped to 8.3%. This was the second consecutive year a drop has been recorded from the 8.9% realized in 1969. The decrease was mainly attributed to the effect of new stores and the higher interest expense which resulted from the public borrowing. Start up and pre-opening expenses, such as interest and taxes during construction and payroll prior to opening, are charged off immediately.

Dividends

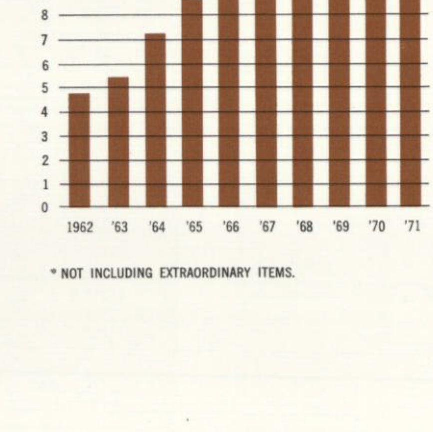
The Company made no change in the annual dividend rate, continuing it at $1.40 for each share, payable at the rate of 35¢ quarterly. Dividends totaled $4,127,000 for the year.

The Company continues to believe that the expansion program in progress necessitates the modest dividend policy that has prevailed for the past several years.

NET SALES

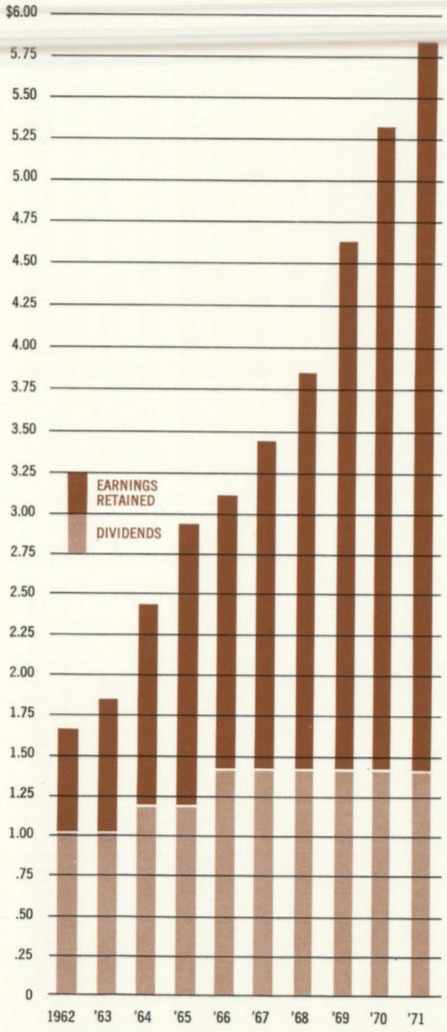


NET EARNINGS*



* NOT INCLUDING EXTRAORDINARY ITEMS.

EARNINGS,* DIVIDENDS AND RETAINED EARNINGS* PER SHARE OF STOCK



* NOT INCLUDING EXTRAORDINARY ITEMS.

Debt

No long term debt was incurred during fiscal 1971.

The amount of long term debt outstanding at the end of each year was as follows:

	January 31, 1972	January 31, 1971
8.70% Sinking Fund Debentures due 1995	$25,000,000	$25,000,000
5 1/8% Notes due 1978— $333,000 due annually to 1977 with $2,500,000 due December 1, 1978	4,503,000	4,836,000
4-6 1/8% Mortgage Notes—generally payable quarterly over the life of the mortgage	7,759,000	8,886,000
	37,262,000	38,722,000
Less—due within one year	1,443,000	1,454,000
	$35,819,000	$37,268,000

For short term needs, the Company relies primarily upon the sale of customer revolving and installment sales contracts. These accounts are sold, without recourse, to the First National City Bank. The bank withholds, as a reserve, an amount equal to 10% of the receivables so acquired. It charges a discount equal to its floating or prime rate on the amount advanced to us.

In addition, the Company has a Credit Agreement which will remain in effect until January 31, 1973, under which it could borrow up to $40,000,000. Any such sums borrowed up to $25,000,000 would be repaid in 16 quarterly payments and any sum in excess of $25,000,000 would be repaid on January 31, 1977. No borrowings were made under the agreement in 1971 and present expectations are that any sums borrowed under this agreement this year will be repaid by the end of the current fiscal year.

The Company has banking relationships with many banks in New York and in cities in which it operates stores. A number of such banks have indicated their willingness to lend funds on an unsecured basis to the Company.

Interest costs for the year showed an increase of $545,000. While the downward fluctuation in the prime rate helped on the interest cost associated with the sale of our receivables, it was more than offset by the higher interest costs connected with the public borrowing of $25,000,000 at a rate of 8.7% in December, 1970.

Additions and Improvements to Property and Equipment

Capital expenditures climbed to an all time high in 1971, amounting to $20,496,000 which was slightly more than the figure forecast in our last report. During the past two years and continuing into 1972, we deemed it necessary, in most cases, to construct our own store buildings. This practice accounted in large part for the higher expenditures.

Capital expenditures for 1972 should also approximate $20,000,000.

Depreciation and repairs, which are charged against current operations, showed an increase for the year. Depreciation increased to a new high of $6,235,000 and repairs rose to $1,464,000.

Income taxes currently payable are reduced to a degree by the Company's policy of depreciating property and equipment for tax purposes over the shortest lives permitted by the Treasury Department. The cash flow generated by this procedure is applied to the needs of the business.

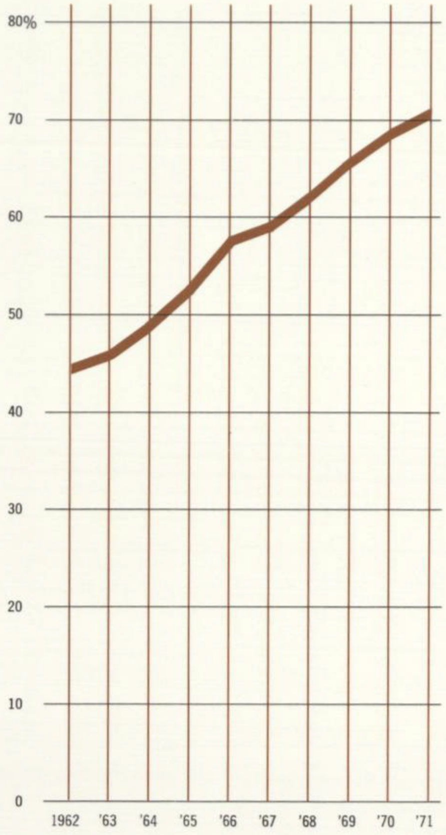
Leases

In the past five years, we opened fifteen stores, of which seven were leased and eight owned outright by the Company. During this period, shopping center developers had unforeseen problems which convinced us that building some of our own stores was in the best interests of the Company. At year end, we leased forty-five locations, owned seventeen completely and partly owned and leased seven locations.

A summary of our lease commitments is as follows:

expiring during fiscal years ending jan. 31	number of leases	minimum annual rental
1973-75	26	$ 253,000
1976-78	23	376,000
1979-83	24	783,000
1984-88	15	1,063,000
After 1988	31	2,962,000
	119	$5,437,000

SUBURBAN STORE SALES
% OF TOTAL SALES



Expansion

During the year, the Company opened the following 5 stores:

location	square footage	opening date
Guelph, Ontario, Canada	25,000	March 9, 1971
Nashville, Tennessee	137,700	August 2, 1971
Pensacola, Florida	184,600	August 4, 1971
Aurora (Denver), Colorado	138,000	August 5, 1971
Lexington, Kentucky	145,000	October 14, 1971

We also expanded a Canadian store in Galt, Ontario, increasing it from 22,400 sq. ft. to 41,400 sq. ft.

Two stores, one (13,300 sq. ft.) in Aurora, Colorado and the other (35,600 sq. ft.) in Lakewood, Colorado, were closed.

In 1972, we will add 4 stores:

location	square footage	opening
Cincinnati, Ohio	190,000	June, 1972
Toledo, Ohio	190,000	August, 1972
Fargo, North Dakota	90,000	August, 1972
Louisville, Kentucky	190,000	August, 1972

Our existing downtown store in Fargo (63,300 sq. ft.) will be closed when the new suburban store opens.

In addition, we will complete the enlargement of our Blue Ridge Store in Kansas City, Missouri which will add 35,000 sq. ft. and, by year end, we will have added 60,000 sq. ft. to our existing (33,000 sq. ft.) Green Hills Store in Nashville, Tennessee.

We have 4 stores planned for 1973, two of which will replace smaller units.

At January 31, 1971, we had 5,656,000 sq. ft. of space, excluding warehouse facilities. We added a net of 600,400 sq. ft., making our year end total 6,256,400.

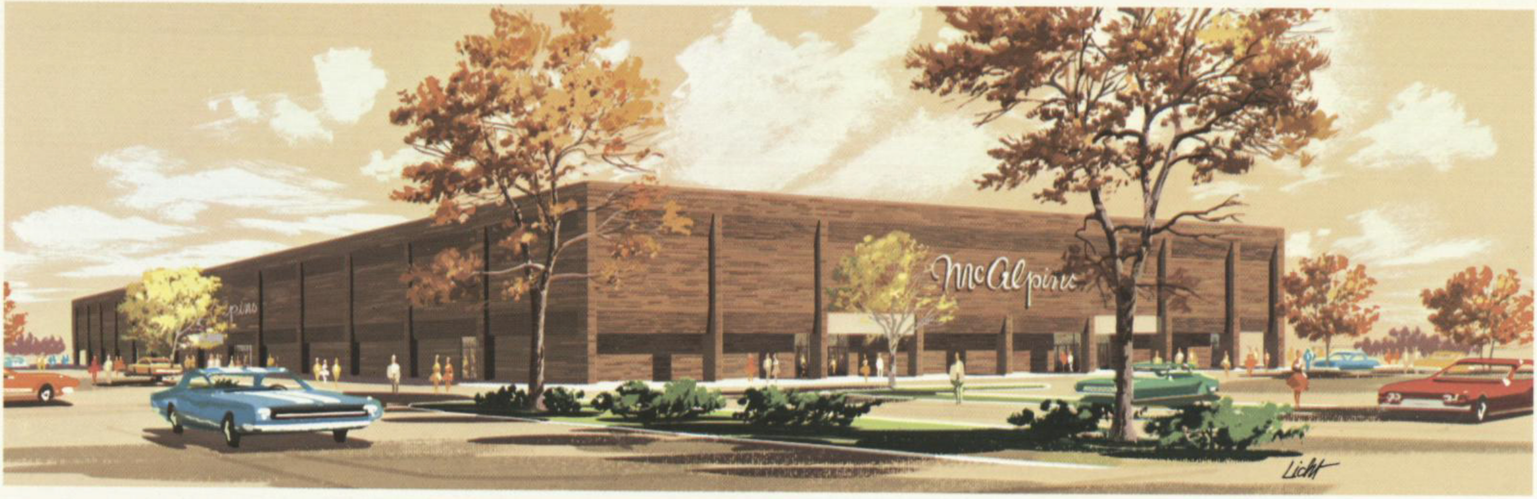
The Company operates under 16 separate names, all established prior to 1900, as set forth on pages 24 and 25 of this report.

Advanced Systems

The stores opening during 1972 will be equipped with new, electronic point of sale devices instead of electro mechanical sales registers. This equipment is capable of combining into one operation information that formerly was handled in several separate procedures. Typical examples are the automatic

New Stores

Cincinnati, Ohio
Toledo, Ohio
Fargo, North Dakota
Louisville, Kentucky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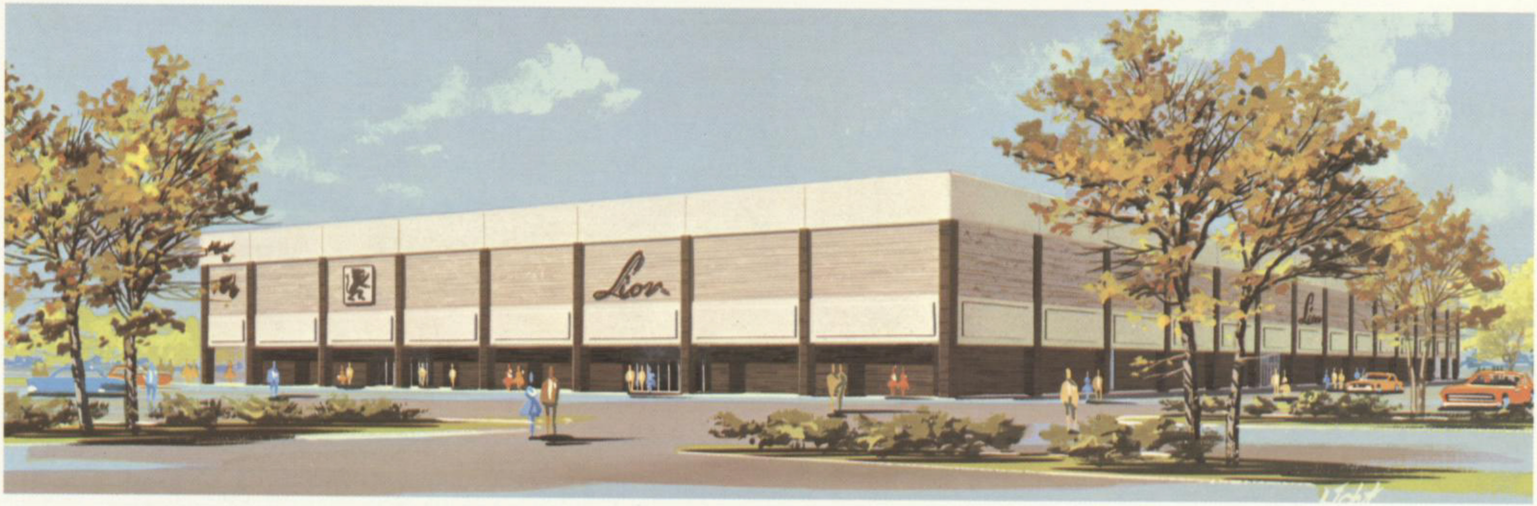
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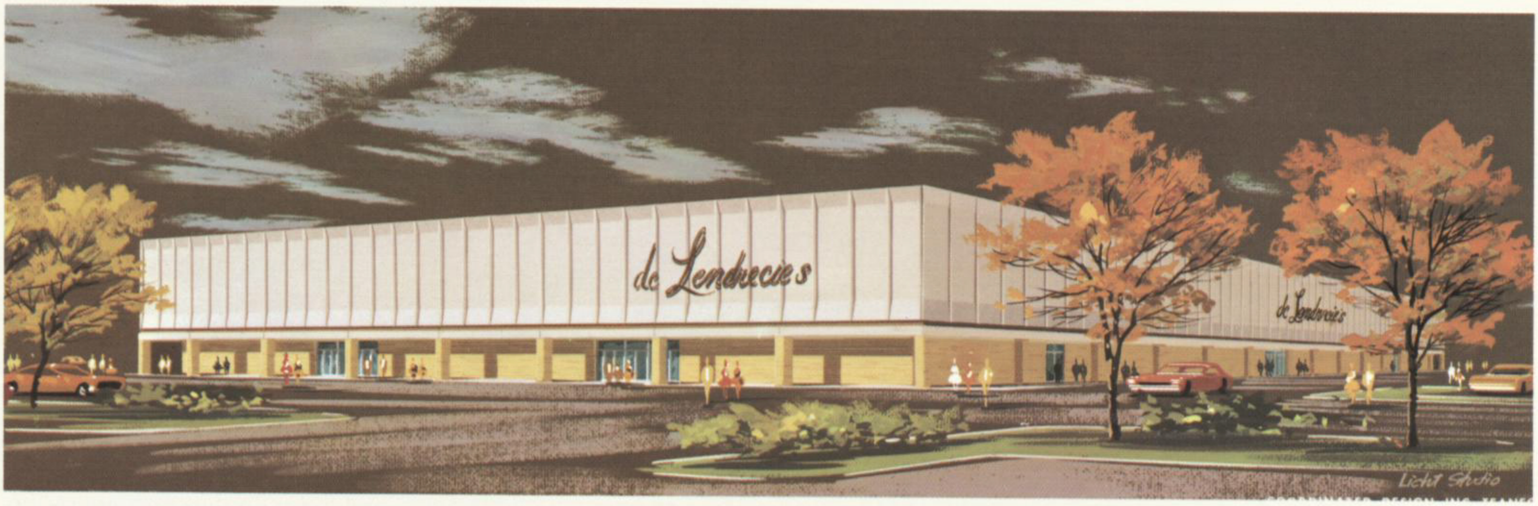
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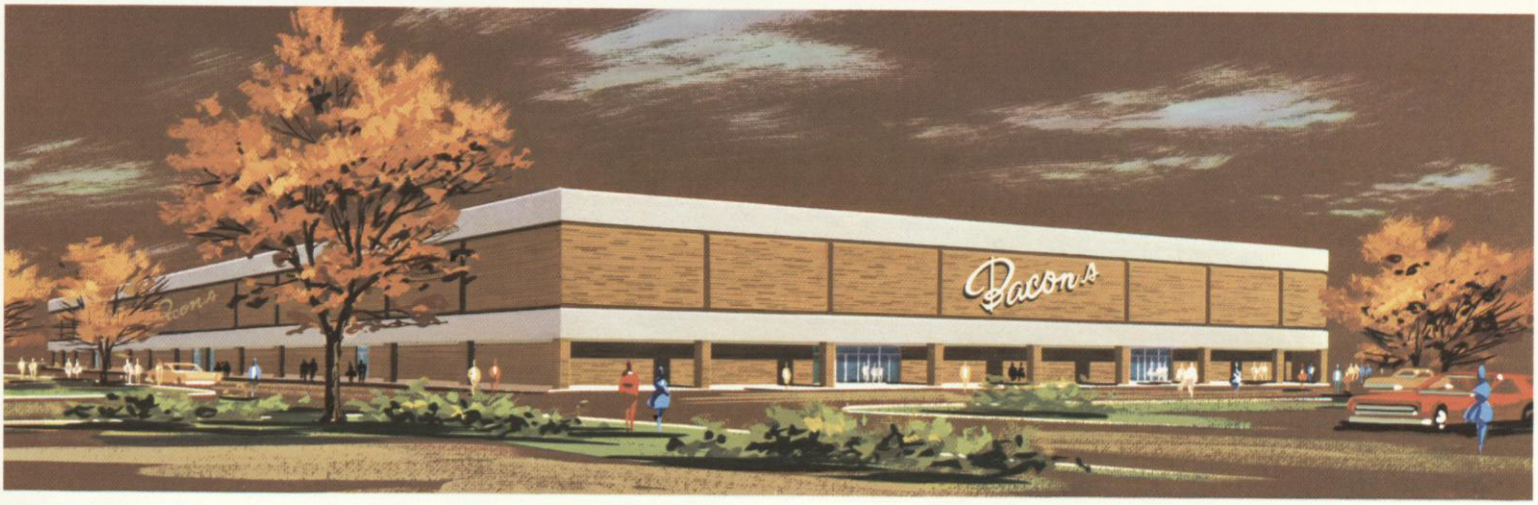

Bacon's
Bacon's

checking of customer's credit, the recording of the customer's accounts receivable billing information, as well as merchandise sales and stock information. The use of this equipment will supply us with detailed information not previously as easily available and, as a result, will enable us to better serve our customers.

Pension and Profit Sharing Plans

Each regular full-time employee who has reached his or her 25th birthday and has 2 years of service is eligible for our Pension and our Savings and Profit Sharing Plans.

Inasmuch as the costs of the Pension Plan are borne entirely by the Company, each eligible employee is automatically enrolled. The cost of this plan for the year increased to $1,708,000.

Pension costs are computed upon certain actuarially based assumptions. Effective February 1, 1971, the Company changed from an aggregate to an entry age method of determining its pension liability and contribution. Concurrent with this change, in order to more closely relate to present economics, revisions were made in the actuarial assumptions previously used in the area of estimated yield, anticipated salary increases and termination credits. The effect of these changes on the Company's earnings was not significant. None of these changes, in any way, affects the pension rights of the participants. Pension costs are funded currently.

The Pension Plan had a market value of $11,946,000 at year end. This fund has 4,506 participants and is managed by the First National City Bank.

As a supplement to the Pension Plan, each eligible employee may elect to have a portion of his earnings (2, 4, 6, 8, or 10%) set aside and invested in the Savings and Profit Sharing Plan. This fund is invested in equity and fixed income securities at the discretion of the Trustee, Chemical Bank. On February 1, 1972, this fund had 5,502 participants and a market value of $18,277,000.

The Company makes a contribution to the Plan based upon its earnings. Each participant is credited with a portion of the Company's contribution, which is held in a separate fund for the purchase of Mercantile Stores common stock in the public market. At year end, the fund owned about 212,500 shares of Mercantile with a market value of $132.50 per share, or $28,156,000, which represented 7% of its outstanding issue.

The Company contributed $1,545,000 to the Savings and Profit Sharing Plan during the year.

Current Assets

Ratio

The year-end current ratio was 3.15 compared to 3.22 at the close of the previous year. However, the previous year's ratio was distorted by the fact that the proceeds from the sale of the debentures were largely unspent, which resulted in an abnormal amount of cash on hand and in banks.

Receivables

Credit sales represented almost 44% of sales and our experience on bad debts continued to be well under 1%.

Receivables were as follows:

	January 31, 1972	January 31, 1971
Customer Accounts		
Regular Retail	$ 8,722,000	$ 9,167,000
Installment—Not Sold	1,043,000	935,000
Equity in accounts sold (uncollected balances of $42,800,000 and $38,571,000 respectively)	30,903,000	31,857,000
Other Accounts	3,257,000	1,748,000
	43,925,000	43,707,000
Less—Reserve for Doubtful Accounts	2,885,000	2,681,000
	$41,040,000	$41,026,000

Inventory and Shrinkage

Inventories at year end were $7,447,000 higher than a year ago. A substantial portion of this increase was in the new stores. The Company believes that inventories are well balanced.

Shrinkage for the year continued to be well controlled and was in line with that enjoyed by other good retailers.

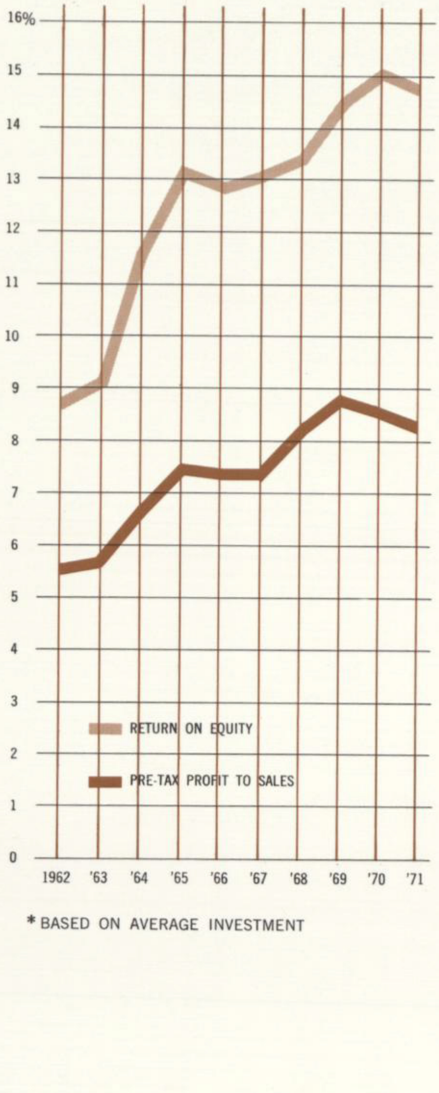
Cash Flow

Cash flow, consisting of:

Net income	$17,251,000
Depreciation (on a straight-line basis)	6,235,000
Deferred Income Tax	682,000
	$24,168,000

amounted to $8.20 per share. A year ago, it was $7.56 per share.

PERCENTAGE OF PRE-TAX PROFIT TO SALES AND RETURN ON EQUITY *



* BASED ON AVERAGE INVESTMENT

Stockholders' Equity

Retained earnings increased to $111,469,000 which together with capital and capital surplus resulted in a book value of $41.73 per share.

An existing loan agreement contains a restriction on the payment of cash dividends. As of January 31, 1972, $36,279,000 was free of this restriction.

Executive Changes

A number of changes were made at year-end in the management of the Company.

Mr. R. Nelson Shaw, who had been President since 1964, was appointed Chairman of the Board and Chief Executive Officer. Mr. Shaw has been with the Company since 1935.

Mr. William G. Stubenvoll, who managed the McAlpin Stores in Cincinnati and was also a Vice-President of the Company, was appointed President, succeeding Mr. Shaw. He was also named a Director.

Mr. Harold W. Jockers, former Chairman of the Board, became Chairman of the Executive Committee.

Mr. Francis G. Kingsley relinquished his post as Chairman of the Executive Committee and became Chairman of the Finance Committee.

Mr. Ralph S. Stillman, who served as a Director since 1958, resigned to pursue his personal commitments. During his long tenure as a Director, Mr. Stillman, a banker, made lasting contributions to the operations of the Company.

Mr. F. Kenneth Bradley, Vice-Chairman of the Board, and Mr. Morgan A. Casey, Vice-President, resigned as officers but will continue to offer their advice as Consultants. Both gentlemen will also continue as Directors.

Mr. William A. Heineman was appointed a Vice-President of the Company. He will also continue as Treasurer.

financial statements

auditors' report

To the Stockholders and Board of Directors of
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheets of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1972 and 1971, and the related statements of consolidated income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1972 and 1971, and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

New York, N. Y.,
April 6, 1972.

statements of consolidated income and retained earnings

For the years ended January 31, 1972 and 1971

	1972	1971
Net Sales	**$393,258,000**	$353,464,000
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	**334,550,000**	300,605,000
Depreciation and amortization	**6,235,000**	5,182,000
Rentals — see page 7	**5,017,000**	4,533,000
Pension and profit sharing — see page 10	**3,253,000**	2,875,000
Interest	**3,731,000**	3,186,000
Taxes —		
Federal income	**15,390,000**	14,700,000
Other	**7,831,000**	6,703,000
Total	**376,007,000**	337,784,000
Income before extraordinary item	**17,251,000**	15,680,000
Gain on sale of land, less Federal income taxes of $304,000	**—**	1,007,000
Net Income	**$ 17,251,000**	$ 16,687,000
Earnings per share		
Before extraordinary item	**$5.85**	$5.32
Extraordinary item	**—**	.34
Net Income	**$5.85**	$5.66

In the annual reports to the Securities and Exchange Commission, the cost of goods sold, central buying and occupancy expenses are $269,943,000 and $241,855,000 respectively, for the years ended January 31, 1972 and 1971; selling, general and administrative expenses are $87,775,000 and $78,659,000 respectively.

Retained Earnings	**1972**	1971
Balance, beginning of year	**$ 98,345,000**	$ 85,785,000
Net Income	**17,251,000**	16,687,000
	115,596,000	102,472,000
Dividends — $1.40 per share, in each year	**4,127,000**	4,127,000
Balance, end of year	**$111,469,000**	$ 98,345,000

statements of consolidated changes in financial position

For the years ended January 31, 1972 and 1971

	1972	1971
Sources of Working Capital:		
Income before extraordinary item	**$17,251,000**	$15,680,000
Depreciation and amortization	**6,235,000**	5,182,000
Increase in deferred income taxes	**682,000**	425,000
Funds provided from operations before proceeds from sale of land	**24,168,000**	21,287,000
Net proceeds from sale of land	**775,000**	1,573,000
Increase in long term debt	**—**	25,000,000
	24,943,000	47,860,000
Dispositions of Working Capital:		
Dividends paid	**4,127,000**	4,127,000
Additions to property and equipment	**20,496,000**	14,178,000
Reductions in long term debt	**1,449,000**	1,455,000
Increase in other investments	**193,000**	260,000
	26,265,000	20,020,000
Increase (Decrease) in Working Capital	**($ 1,322,000)**	$27,840,000
Changes in Working Capital:		
Current assets—		
Cash	**($ 7,260,000)**	$11,087,000
Receivables	**14,000**	14,187,000
Inventories	**7,447,000**	7,654,000
Prepaid expenses and other current assets	**(825,000)**	938,000
Total	**(624,000)**	33,866,000
Current liabilities—		
Accounts payable	**496,000**	4,740,000
Accrued liabilities	**786,000**	820,000
Reserve for Federal income taxes	**(573,000)**	480,000
Current maturities of long term debt	**(11,000)**	(14,000)
Total	**698,000**	6,026,000
Increase (Decrease) in Working Capital	**($ 1,322,000)**	$27,840,000

consolidated balance sheets

January 31, 1972 and 1971

ASSETS

Current Assets:	**1972**	1971
Cash, including certificates of deposit	**$ 14,981,000**	$ 22,241,000
Receivables — see page 11	**41,040,000**	41,026,000
Inventories — at lower of cost or market-retail method	**65,422,000**	57,975,000
Investments — at cost (approximately market)	**980,000**	1,474,000
Prepayments	**1,227,000**	1,558,000
Total Current Assets	**123,650,000**	124,274,000
Other Investments	**1,703,000**	1,510,000
Property and Equipment, at cost:		
Land	**8,865,000**	9,418,000
Buildings and improvements	**65,013,000**	51,642,000
Fixtures	**42,904,000**	39,425,000
	116,782,000	100,485,000
Less accumulated depreciation	**40,244,000**	37,433,000
Property and Equipment — Net	**76,538,000**	63,052,000
Total	**$201,891,000**	$188,836,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	**1972**	1971
Accounts payable	**$ 23,895,000**	$ 23,399,000
Accrued expenses	**11,072,000**	10,286,000
Federal income taxes	**2,855,000**	3,428,000
Debt due within one year	**1,443,000**	1,454,000
Total Current Liabilities	**39,265,000**	38,567,000
Long Term Debt — see page 6	**35,819,000**	37,268,000
Deferred Federal Income Taxes	**3,789,000**	3,107,000
Stockholders' Equity:		
Common stock — $1.83 1/3 par value Authorized 2,950,998, issued 2,947,818 shares (after deducting 3,180 treasury shares)	**5,404,000**	5,404,000
Capital surplus	**6,145,000**	6,145,000
Retained earnings — see page 12	**111,469,000**	98,345,000
Stockholders' Equity	**123,018,000**	109,894,000
Total	**$201,891,000**	$188,836,000

ten-year review

Year ended January 31	1972	1971	1970
Operating Results			
Net sales	$393,258,000	$353,464,000	$318,353,000
Income before Federal income taxes	32,641,000	30,380,000	28,322,000
Percent to sales	8.3	8.6	8.9
Income before extraordinary item	17,251,000	15,680,000	13,562,000
Percent to sales	4.4	4.4	4.3
Extraordinary item	—	1,007,000	—
Dividends paid	4,127,000	4,127,000	4,127,000
Per Common Share			
Income before extraordinary item	$ 5.85	$ 5.32	$ 4.60
Extraordinary item	—	.34	—
Dividends	1.40	1.40	1.40
Cash flow	8.20	7.56	6.26
Financial Position			
Working capital	$ 84,385,000	$ 85,707,000	$ 57,867,000
Ratio of current assets to current liabilities	3.15	3.22	2.78
Receivables — net	41,040,000	41,026,000	26,839,000
Merchandise inventories	65,422,000	57,975,000	50,321,000
Property and equipment — net	76,538,000	63,052,000	54,622,000
Total assets	201,891,000	188,836,000	146,908,000
Long term debt	35,819,000	37,268,000	14,102,000
Retained earnings	111,469,000	98,345,000	85,785,000
Stockholders' equity	123,018,000	109,894,000	97,334,000
Per common share	41.73	37.28	33.02
Number of shares outstanding	2,947,818	2,947,818	2,947,818
Other Data			
Capital expenditures	$ 20,496,000	$ 14,178,000	$ 7,970,000
Depreciation	6,235,000	5,182,000	4,613,000
Number of stores	69	66	62
Total square feet	6,256,000	5,656,000	5,134,000

1969	1968	1967	1966	1965	1964	1963
$285,585,000	$256,550,000	$234,267,000	$220,610,000	$207,261,000	$192,409,000	$183,840,000
23,766,000	18,731,000	17,046,000	16,265,000	13,979,000	10,923,000	10,105,000
8.3	7.3	7.3	7.4	6.7	5.7	5.5
11,351,000	10,182,000	9,074,000	8,600,000	7,132,000	5,370,000	4,888,000
4.0	4.0	3.9	3.9	3.4	2.8	2.7
—	1,387,000	—	—	—	—	—
4,127,000	4,127,000	4,127,000	3,537,000	3,537,000	2,948,000	2,948,000
$ 3.85	$ 3.45	$ 3.08	$ 2.92	$ 2.42	$ 1.82	$ 1.66
—	.47	—	—	—	—	—
1.40	1.40	1.40	1.20	1.20	1.00	1.00
5.46	5.39	4.30	4.06	3.61	2.97	2.74
$ 53,092,000	$ 47,332,000	$ 44,768,000	$ 42,075,000	$ 39,567,000	$ 37,533,000	$ 37,291,000
2.69	2.84	2.83	2.57	2.67	2.58	2.30
29,263,000	20,621,000	22,156,000	24,701,000	21,847,000	20,556,000	27,226,000
46,017,000	39,757,000	33,325,000	32,179,000	30,124,000	29,666,000	28,927,000
52,171,000	48,319,000	44,157,000	42,031,000	40,714,000	40,357,000	39,766,000
137,732,000	121,915,000	113,955,000	111,393,000	104,447,000	102,129,000	105,642,000
15,731,000	13,526,000	14,572,000	15,858,000	16,177,000	17,407,000	18,616,000
76,350,000	69,126,000	61,684,000	55,705,000	51,674,000	48,079,000	45,657,000
87,899,000	80,675,000	73,234,000	67,255,000	63,223,000	59,629,000	57,206,000
29.82	27.37	24.84	22.82	21.45	20.23	19.41
2,947,818	2,947,818	2,947,818	2,947,818	2,947,818	2,947,818	2,947,818
$ 8,178,000	$ 8,634,000	$ 6,887,000	$ 4,560,000	$ 3,771,000	$ 3,621,000	$ 4,883,000
4,326,000	3,983,000	3,485,000	3,243,000	3,413,000	3,248,000	2,933,000
61	61	60	58	60	61	61
5,005,000	4,942,000	4,630,000	4,427,000	4,447,000	4,150,000	4,113,000

Castner Knott Co. . . . in the southern tradition

NASHVILLE, TENNESSEE

Sportswear

Castner Knott, Nashville's oldest retail department store, is a landmark in the cultural city it has served since 1898, when William Knott and Charles Castner founded the Castner Knott Dry Goods Company, on Fifth Avenue and Church Street in downtown Nashville.

Even today, amid all the high rises and facades of modern structures, Castner Knott remains a tradition on Church Street, a location occupied since 1902, when progress impelled the move to larger quarters.

The downtown store has experienced many changes over the years. As recently as 1968, a major modernization program took place, at which time some lines of merchandise were eliminated in order to put more emphasis on the important fashion areas.

A total new image was spearheaded by the entire buying staff, bringing to Nashville some of the finest lines in the world—exclusive names familiar in the fashion capitals of the world. The addition of these fine lines, along with Castner Knott's own quality brands, has added dynamism and a new dimension to retailing in the area. This, with coordinated efforts of display, fashion and advertising, have created a sophisticated fashion image.

Castner Knott appeals to all ages. New shops were created for individual tastes.

The "Miss Sophisticate" shop is the career girl's answer to high fashion she can afford; the "Gold Room" appeals to the more affluent woman; and, to bridge the generation gap, there is the "Young World" for the very young, "The Spot" for pre-teens and "Stage II" for juniors. Since the life style of today changes so frequently, Castner Knott has recently added two more new shops—"Tempo Two," a contemporary sportswear shop and "Evening Bazaar," an exquisite collection of at-home and after-five loungewear.

To further enhance its fashion image, Castner Knott promotes numerous fashion events and workshops throughtout the year for ladies' clubs, sororities, career groups and Nashville society.

An extensive and purposeful high school and college board program was formed and Castner Knott was first to inaugurate a Little Miss Charm School for youngsters 6 to 12. Seventeen Beauty Workshop has been an exclusive with Castner Knott, appealing to teenagers 13 to 19, and it has produced scholarship award winners for outstanding efforts in civic, charitable and community services. Castner Knott's first youth group had an award winner for the National Bonne Bell Community Service Award.

Castner Knott has expanded its advertising media from newspaper print to radio and television, directed primarily to youth.

Castner Knott has a very successful merchandise training program. The program has been vital in developing young, qualified men and women to fill the many responsible positions that have developed due to its growth. At present, they have fifteen participants in the program. This program is designed to thoroughly train young people in the field of retailing. Castner Knott has been most successful in obtaining many qualified college graduates who are playing a large part in making its stores even better.

As early as 1944, Castner Knott added a branch store in Shelbyville, Tennessee and was first to go suburban in Nashville in 1955, with a store in Green Hills. Following that successful venture, a second branch was opened in Donelson in 1961. Only five years later, the Company opened a Harding Mall branch and, in 1968, Castner Knott crossed the state line with a store in Bowling Green Mall, Kentucky. Number seven, the most complete and modern store of all, was added just this year in Rivergate Mall. Plans have recently been announced for an enlargement and remodeling program for the suburban store in Green Hills.

Castner Knott attributes much of its growth to the "Plus City" which it serves—an enthusiastic city with a promising future and the long-time reputation of being the "Wall Street of the South." Being the capital of Tennessee and the center of many historical sites, Nashville's many visitors add to the financial support and growth of this diversified city.

Nashville surrounds itself with the culture of art, music, giant corporations, internationally-known financiers, distinguished universities and, to add to the inherent charm of its human qualities of southern hospitality, shares its history with those who come to see the Hermitage, Belle Meade Mansion, Cheekwood and the world's only full scale replica of the Parthenon.

Castner Knott, like Nashville, was founded on a tradition that has served it well and that promises to serve it better in meeting the opportunities of the future; a foundation that has steadied the growth of Castner Knott for seveny-three years and continues to pave the way to an even brighter future.

stage II

Evening
BAZAAR
Loungewear

EMERALD ROOM

GOURMET
SHOP

The Spot

Bacons

Established 1845

Louisville, Kentucky
H. Marvin Dorethy, President
- Downtown Louisville
- St. Matthew's
- Shively
- Jeffersonville, Ind.

GAYFER'S

Established 1879

Mobile, Alabama
Fred J. Bostrom, President
- Downtown Mobile
- Springdale
- Pensacola, Fla. (2)
- Tallahassee, Fla.
- Edgewater, Miss.
- Jackson, Miss.

the Jones Store co.

Established 1887

Kansas City, Missouri
Ronald W. Ferguson, President
- Downtown Kansas City
- Blue Ridge
- Independence
- Prairie Village, Kans.
- Pittsburg, Kans.
- Overland Park, Kans.

Castner Knott Co.

Established 1898

Nashville, Tennessee
James C. Lovell, President
- Downtown Nashville
- Green Hills
- Donelson
- Shelbyville
- Harding Mall
- Rivergate
- Bowling Green, Ky.

Glass Block

Established 1887

Duluth, Minnesota
Robert W. Tyler, President
- Downtown Duluth

joslins

Established 1873

Denver, Colorado
Donald R. Chabot, President
- Downtown Denver
- Downtown Pueblo
- Englewood
- Greeley
- Boulder
- Aurora
- Villa Italia

de Lendrecie's

Established 1879

Fargo, North Dakota
Ray Klein, President
- Downtown Fargo

Hennessy's

Established 1885

Butte, Montana
Milo D. Skordal, President
- Downtown Butte
- Helena

Represented in the markets by:

Mercantile Stores Company, Inc. (N. Y.)
128 W. 31st Street
New York, N. Y. 10001

Cable Address: Merstore

Stock Transfer Agent:

Chemical Bank
20 Pine Street
New York, N. Y. 10015

Registrar of Stock:

First National City Bank
399 Park Avenue
New York, N. Y. 10022

mercantile stores company, inc. — *department store divisions*

Lazarus

Established 1889

Wilkes-Barre, Pennsylvania
Russell W. Lackie, President
  Downtown Wilkes-Barre

GAYFER'S / MONTGOMERY FAIR

Established 1868

Montgomery, Alabama
Stephen E. Maxwell, President
  Suburban Montgomery
  Eastbrook
  Opelika
  Tuscaloosa

the Root Store co.

Established 1856

Terre Haute, Indiana
Frank C. Schrohe, President
  Downtown Terre Haute
  Honey Creek
  Sullivan
  Robinson, Ill.

Lion

Established 1857

Toledo, Ohio
Leon F. Winbigler, President
  Downtown Toledo
  Westgate

Peoples

Established 1888

Tacoma, Washington
Henry W. Powell, President
  Downtown Tacoma
  Yakima
  Lakewood
  Port Angeles
  Wenatchee
  Olympia (Lacey)

White's

AUGUSTA'S PACE SETTER

Established 1874

Augusta, Georgia
Paul A. Martsolf, President
  Downtown Augusta
  National Hills
  Aiken, S. C.

McAlpin's

Established 1852

Ohio Operations
David R. Huhn, President
  Downtown Cincinnati
  Kenwood
  Western Hills
  Cherry Grove
  Middletown

Kentucky Operations
Ralph T. Glassford, President
  Lexington, Ky. (2)

The Right House

Established 1843

Hamilton, Ontario, Canada
John R. Barrett, President
  Downtown Hamilton
  Brantford
  Galt
  St. Catharines
  Guelph

White's

Established 1874

Columbia, South Carolina
Thomas E. Hale, President
  Richland Mall
  Dutch Square

Mercantile Stores Company, Inc. 100 West 10th Street, Wilmington, Delaware 19899